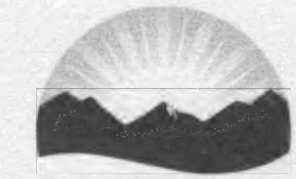
bclc
playing it right

2014/15
ANNUAL SERVICE PLAN REPORT



BRITISH
COLUMBIA

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Board Chair's Message and Accountability Statement

BCLC had an extraordinary financial year. We achieved our highest net income to date, $1.25 billion, which is $61.5 million over budget and $79.9 million over last fiscal.

Exceptional performance in high-limit table games in casinos offset lower than expected lottery sales. This has contributed positively to the delivery of net income. However, since commissions paid on table games are significantly higher than those paid on lottery sales, the shift in revenue negatively impacts our comprehensive costs ratio (the measure of total business costs, excluding prizes and taxes, as a percentage of total net win). We met our current target ratio this year; however, this ratio will be higher in future years. Additionally, there is risk in this revenue stream as it is heavily dependent on a relatively small international player base. We know we cannot rely on this business segment for sustainable long-term growth. As such, we continue to invest and innovate to strengthen our business: creating fresh entertainment experiences and delivering them in ways that British Columbians want.

Speaking of innovation, BCLC completed the installation of our new gaming management system – the most intensive infrastructure project in BCLC history – on time and under the $104 million capital budget. This IT system underpins $1.7 billion in revenue from our gaming facilities. On the social responsibility front, we are proud of our contribution to the Province's investment in the UBC Centre for Gambling Research which opened this past November, and our enhanced anti-money laundering program.

Last June, we adopted Government's Taxpayer Accountability Principles (TAP), implementing new Standards of Ethical Business Conduct to better define the expectations of all BCLC employees as they relate to TAP.

Despite a record year financially, it has been challenging for our people as we responded to Government's Internal Audit and Advisory Services "Review of the British Columbia Lottery Corporation" and adjusted to outcomes of our cost containment measures, which together resulted in change to 25 per cent of our workforce. I commend our people for an outstanding year in the face of extraordinary challenges. We cut costs, increased efficiencies, and had landmark accomplishments. Our employees remained resilient and engaged in delivering on our goals.

More than $18 billion has been delivered to the Province of B.C. during our 30-year history. Building on that strong foundation, applying innovation in all we do, BCLC will continue to strengthen and benefit British Columbia.

The 2014/15 BCLC Annual Service Plan Report compares actual results to the expected results identified in the 2014/15 – 2016/17 Service Plan. I am accountable for these results as reported.

Respectfully,

Bud Smith
Board Chair

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Purpose of the Organization

BCLC conducts and manages gambling in B.C. including casino, lottery, bingo and sports betting through multiple channels of distribution. Our slot machines and table games are operated through contracts with private sector service providers at 15 casinos, two racecourse casinos, 18 community gaming centres and seven commercial bingo venues. Our national and provincial lottery products are sold at over 3,900 retail locations, operated by private sector retailers who earn a standard commission based on product sales. PlayNow.com is BCLC's secure, regulated online and mobile channel with a growing diversity of lottery games, sports betting, eCasino, ePoker and eBingo entertainment for over 360,000 registrants. PlayNow.com also provides online gambling services as well as web-based and smartphone platforms to Manitoba Lotteries.

BCLC is a Crown corporation, established on April 1, 1985, and is governed by B.C.'s *Gaming Control Act* (2002). We manage and conduct gaming and grow net income in a socially responsible way, adhering to the Taxpayer Accountability Principles, for the benefit of British Columbians.

The consolidated financial statements of BCLC include a wholly-owned subsidiary, B.C. Lottotech International Inc. (Lottotech). The primary business of Lottotech is the purchase and lease of capital assets for BCLC, with Lottotech's budget renewed and approved through our annual business planning process. The financial operations, management and oversight of Lottotech are consolidated within BCLC operations.

Strategic Direction and Context

Strategic Direction

Specific direction from Government to BCLC was provided in the 2014/15 Government Letter of Expectations: operate gaming in a socially responsible manner and within the Province's legislative and regulatory framework; support responsible gambling research, education and awareness; enhance anti-money laundering programs; optimize performance by seeking new revenue opportunities; and create efficiencies through the modernization of infrastructure, process and technology. Read the full letter outlining these expectations here:
http://corporate.bclc.com/content/dam/bclc/corporate/documents/terms-of-reference/governments-letter-of-expectation-2014-2015.pdf

In addition, as per the Taxpayer Accountability Principles (TAP) Addendum of June 2014, BCLC adopted principles of cost consciousness (efficiency), accountability, appropriate compensation, service, respect and integrity into our business operations. Read the full addendum letter here:
http://corporate.bclc.com/content/dam/bclc/corporate/documents/transition-letter-tax-payer-accountability-sept-2014.pdf

See the Report on Performance section for our progress on these initiatives.

Strategic Context

In fiscal 2014/15, a number of significant factors, both internal and external, challenged our business and performance.

Foremost, we underwent an Internal Audit and Advisory Services Review by Government, which required response by dedicated resources throughout the organization. BCLC accepted all 25 recommendations, which included making improvements to gaming operations, player and public protection, and internal operations to help strengthen BCLC. The entire review can be found here: http://www.fin.gov.bc.ca/ocg/ias/pdf_docs/Review%20of%20BCLC.pdf and BCLC's response to the review can be found here: http://corporate.bclc.com/content/dam/bclc/corporate/documents/bclc-response-to-audit-dec17.pdf

We also made strategic workforce cuts, reducing the number of positions by 67, to better manage costs. A voluntary termination program (VTP) was offered to employees, resulting in higher than budgeted costs. With increased uncertainty in the organization, we also experienced higher than anticipated turnover of nearly 25 per cent of our workforce. Attracting and retaining employees has been challenging, and a number of key leadership roles were filled with interim appointments.

In 2014/15, BCLC experienced a significant shift in its operating environment due to increasingly mature markets and rapidly evolving player preferences.

Our two major business lines (lottery and casino) are mature and facing market saturation. Revenues are flattening and margins are sensitive to shifts in player preferences. Lottery revenues are heavily dependent on large jackpots, resulting in lottery revenue volatility. Casino revenues are increasingly dependent on international players who come to play high-limit table games. While our online gambling business continues to experience growth, its ability to significantly influence overall business performance is limited due to its current net income contribution in proportion to the rest of the business.

While performance in our high-limit table casino games category compensated for below budget lottery sales, success in these games has increased our direct costs because much higher commissions are paid on table games revenue, as compared to lottery sales. Additionally, we currently benefit from an international player base that chooses to spend its discretionary dollars in our local casinos, and specifically on high-limit table games. As a result, we are exposed to the risk that these players may choose to spend their time and money outside B.C., or on activities other than gaming. While the current state of the Canadian dollar is favourable for attracting international players to B.C., this remains a risk that is tied to factors outside of our control, and associated revenue could be highly sensitive to these factors.

Our facility distribution strategy is also nearing completion, with 90 per cent of B.C. adults living within a 30-minute drive from a casino or community gaming facility. This means that increased net income growth in casino gaming will result from product changes or facility enhancements. Our focus now is working with our service providers to enhance these properties, so that they have broader appeal among consumers within existing markets as an entertainment choice.

We must also continue to support and enhance our core products (slots, tables, LOTTO MAX, Lotto 6/49, Keno and Scratch & Win) to retain core players and sustain these revenue streams. Additionally we are focused on delivering new and innovative content and experiences to broaden our player base and engage moderate and light players.

Report on Performance

Our mandate is to grow net income responsibly for the benefit of British Columbians, while applying the Taxpayer Accountability Principles (TAP). The 2014/15 Government Letter of Expectations (GLE) provides specific direction to BCLC. Below is a brief summary of our work to fulfill these stipulations:

- We operated our business within the legislative and regulatory framework established by the Province and complied with all policies, directives and standards issued by the Minister and the Gaming Policy and Enforcement Branch (GPEB).
- We conducted gaming within the social policy framework established by Government and in alignment with our social responsibility objectives by:
  - Maintaining an efficient and effective responsible gambling program, focused on research, player education and public awareness;
  - Working to reduce reportable greenhouse gas emissions;
  - Collaborating with GPEB, the Ministry of Finance, the Ministry of Health and the Ministry of Education to help inform the development of the Province's Plan for Public Health and Gambling, released in February 2015; and
  - Investing in a new, independent Centre for Gambling Research at the University of British Columbia, which opened in November 2014. (In 2013/14, the Government of British Columbia dedicated $2 million through BCLC for the Centre. In its first year, the Centre was granted $1 million, with $250,000 allocated for each of the following four years.)
- We enhanced existing anti-money laundering (AML) programs to ensure compliance with new federal AML regulations released in February 2014 including "Know Your Customer[1]" and are focused on promoting and enhancing cash alternative options in our facilities.
- We optimized our financial performance:
  - Early in 2014/15, BCLC management undertook a detailed review to identify cost reduction opportunities which resulted in operational savings; and
  - We explored new revenue potential within the Province's legal and policy frameworks.
- As part of BCLC's cost management review, projects were prioritized to ensure alignment with long-term BCLC goals to optimize overall performance, security, integrity and efficiency.

A detailed summary of BCLC's work to fulfill the 2014/15 GLE appears in Appendix B.

In the Addendum to the 2014/15 Government Letter of Expectations (GLE), BCLC was directed to take specific actions and, in accordance with Government policy and directives, implement the TAP. BCLC has taken the necessary steps to adopt and integrate all principles within our strategic direction for business along with economic, market and consumer trends.

This is reflected in BCLC's performance framework and in our revised Standards of Ethical Business Conduct (SOEBC) for employees, which includes and makes publicly available all principles (except 'service'). Also our SOEBC for contractors has recently been updated and will be made public in Summer 2015. In addition to TAP discussions at Executive and Board meetings, principles have been

[1] Due diligence measures to identify and verify customers, as well as ongoing monitoring of customer transactions

communicated to employees in person, via email and as part of a mandatory online course to solidify knowledge and understanding.

BCLC is committed to working with the Ministry to develop an Evaluation Plan with specific efficiency and performance measures as determinants of the organization's health and performance, against the Taxpayer Accountability Principles (TAP). We are currently assessing our performance framework, including measures, strategy and Government's direction in relation to the GLE/Mandate Letter, TAP and the Internal Audit and Advisory Services Review. BCLC has developed a Strategic Engagement Plan, which includes regular meetings with the Associate Deputy Minister and the Minister of Finance to ensure effective communication of performance against TAP. As part of the transitional phase, our Report on Performance references all relevant TAP initiatives.

Our 2014/15 BCLC Annual Service Plan Report compares actual results to the expected results identified in the 2014/15 – 2016/17 Service Plan. The following pages summarize how BCLC measures and reports performance through four corporate goals.

Goal 1: Player – We are creating an integrated player-focused entertainment company.

BCLC positively impacts the citizens of British Columbia by delivering exciting, cost-effective and engaging entertainment offerings, in order to sustain and grow net income for the Province.

This past year, we completed the installation of our new gaming management system in all casino and community gaming centres, launched B.C.'s first live venue sports betting pilot and extended Encore Rewards to table games players. Novelty entertainment betting was launched on PlayNow.com and we introduced 19 new eCasino slot and ePoker games for smartphone and tablet users. Lottery distribution expanded through a new retail agreement with Costco and the rollout of Lotto Express to Buy-Low Foods, Quality Foods and Nesters Market.

Strategies:

- **Create fun, relevant player experiences within and across games, channels and touchpoints.**
  Players today have more entertainment options than ever competing for discretionary spending. Using tools and technology, BCLC is listening to our players and learning what they want so that we can deliver fun, relevant products and experiences that meet expectations and provide great value for money.

- **Grow and diversify the player base to strengthen our business.**
  We are focusing on increasing the number of players by enhancing the entertainment value of our products and amenities and integrating new content. This will attract infrequent players and build our business so that we continue to achieve positive outcomes for British Columbians by providing exceptional entertainment options and benefits to communities.

- **Encourage healthy gambling choices.**
  We are committed to conducting and managing gambling in a socially-responsible manner for the benefit of British Columbians. This is the heart of our business. We want our players to enjoy themselves and keep gambling safe and fun, so BCLC consistently delivers effective responsible gambling programs. In line with the Province's strategy, BCLC promotes awareness and understanding of healthy gambling choices, and provides tools to encourage positive behaviours, as well as resources to help problem gamblers. We embrace leading global practices and research to refine our programs, and work to support our service providers in developing effective responsible gambling practices.

Performance Measure: Player Satisfaction

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Player Satisfaction	83%	85%	81%	83%	78%	80%	81%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.92 at the 95% confidence level (19 times out of 20).
Benchmark Data: Player Satisfaction is internally benchmarked on a time series basis.

Discussion:

- Player Satisfaction gauges BCLC's success in offering products and amenities that provide great value for money so that we achieve positive outcomes for British Columbians.
- In 2014/15, player satisfaction was very positive, but below our target. This is due to players providing softer satisfaction ratings and based on player feedback, opportunities exist to enhance the player experience of games and distribution channels. Our goal is to increase player satisfaction in the coming years by:
  - Ensuring that players who visit PlayNow.com from mobile devices have an experience which is optimized for their device;
  - Leveraging the benefits of the new gaming management system that supports our casino business and providing entertaining products in all gaming facilities; and
  - Working with our retailers to deliver enhanced experiences and new distribution points for lottery players.

Performance Measure: Player Participation

Performance Measure	2011/12 Actual	2012/13 Actual[2]	2013/14 Actual	2014/15 Target[3]	2014/15 Actual	2015/16 Target	2016/17 Target
Player Participation	62%	69%	54%	57%	51%	54%	55%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.55 at the 95% confidence level (19 times out of 20).
Benchmark Data: Player Participation is internally benchmarked on a time series basis.

Discussion:

- Player Participation measures the percentage of adult British Columbians who play a BCLC game in any of BCLC's gambling channels at least once a month. This measure is an indicator of how successful we are in creating entertaining and relevant experiences so players purchase our games.
- In 2014/15, player participation was below target. Fewer high lottery jackpots, particularly in the first three quarters of 2014/15, may have contributed to lower-than-targeted results.
- We plan to grow player participation by appealing to infrequent players while retaining our current player base. We will:
  - Listen to our players to gain insight and learn preferences in order to deliver relevant products and experiences that provide great value for money;
  - Refine our marketing programs to enhance the entertainment experiences within and across player touchpoints; and
  - Leverage PlayNow.com across multiple channels and devices to deliver effective and relevant products and services with optimal player convenience.

Performance Measure: Player Awareness of Responsible Gambling Activities

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual[4]	2015/16 Target	2016/17 Target
Player Awareness of Responsible Gambling Activities	80%	78%	68%	68%	79%	79%	80%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.55 at the 95% confidence level (19 times out of 20).
Benchmark Data: Player Awareness of Responsible Gambling Activities is internally benchmarked on a time series basis.

[2] 2012/13 Player Participation results are based on survey results for the first three quarters, excluding fourth quarter results due to a change in survey questions.
[3] In 2014/15, we slightly revised the 'player' definition; this revision has not impacted previous year's results.
[4] In 2014/15, we revised the survey statements for Player Awareness of Responsible Gambling Activities to better reflect our responsible gambling priorities; 2014/15 results are not comparable to previous years.

Discussion:

- Player Awareness of Responsible Gambling Activities gauges our effectiveness at reaching players with our initiatives and messages so that players can make informed gambling choices.
  - In 2014/15, player awareness of responsible gambling activities exceeded our target. More players being aware of BCLC's responsible gambling activities such as our GameSense program may have contributed to higher than targeted results.
- Our goal is to enhance our responsible gambling programs and delivery in the coming years so that we continue to generate net income for the Province in a socially-responsible way:
  - We continue to expand and provide responsible gambling information and offer resources to help problem gamblers;
  - We will offer time and money budgeting tools for facility players, and additional responsible gambling tools for PlayNow.com;
  - Together with the Gaming Policy and Enforcement Branch and B.C. communities, we will continue hosting Responsible Gambling Awareness Weeks to raise awareness and connect people to resources and services;
  - BCLC and the Government of British Columbia have dedicated $2 million over five years to the independent Centre for Gambling Research at the University of British Columbia, which will help inform the Province's responsible and problem gambling programs; and
  - We are working to address the recommendation by Government's Internal Audit and Advisory Services Review to develop outcome based performance measures for responsible gambling:
    - BCLC continues to research best practices in outcome based responsible gambling measures in advance of wider stakeholder consultation. External researchers have been engaged in an ongoing study to scientifically assess the needs of players. Those findings, expected in Fall 2015, will be used to help guide the selection of outcome measures.
    - A second external research team has been hired in conjunction with the Manitoba Gambling Research Program to assess better ways of communicating with players. This research will also create capabilities within BCLC to measure the effectiveness of new responsible gambling communication strategies. This research is expected to take 14 months.

Performance Measure: Net Win per Capita ($)

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Net Win per Capita	$450	$450	$468	$454	$482	$477	$482

Data Source and Data Reliability: Net Win is from BCLC Audited Financial Statements. B.C. population projections are from Statistics Canada.

Benchmarking Data: Net Win is internally benchmarked on a time series basis; current data from benchmark comparators is not available. Historically, BCLC outperformed benchmark organizations Loto-Québec (LQ) and Ontario Lottery and Gaming Corporation (OLG).

Discussion:

- Net Win per Capita tells us how successful we are in growing revenue in relation to the provincial population.
- In 2014/15, BCLC's net win per capita increased over the previous year and exceeded our target. This is due to a higher rate of growth in net win compared to population growth. 2014/15 net win increase was generated primarily through high-limit table play. This category is heavily dependent on an international player base and is directly tied to the tourism industry. The recent slowdown in some national economies and international currency restrictions present business risks.
- 2015/16 targets project high-limit table net win will stabilize after two years of significant growth.

Goal 2: People – We will think differently, work together and act fast.

BCLC employees are a valuable resource. Embracing change and innovation. Caring for communities. Keeping one eye on seamless entertainment experiences and the other on bottom line growth for B.C.

We comply with a rigorous, standardized approach to performance management and employee compensation, which reflects appropriate compensation consistent with Government's Taxpayer Accountability Principles (TAP) and other B.C. Crown corporations.

Strategies:

- **Make BCLC a great place to work so that we are inspired to do our best work and maintain BCLC's stature as a sought-after employer.**
  For nine consecutive years, BCLC has been designated as a top employer in British Columbia. We continue to pursue excellence in the programs, services and experiences we offer to employees.

- **Define our future workforce needs so we have the right people with the right skills at the right time.**
  Our human resources programs will continue to foster a culture and environment supportive of BCLC's business strategy through leadership and employee development.

  BCLC embeds accountability into all leadership roles, including the current salary holdback program. Our Standards of Ethical Business Conduct document has been revised to include TAP definitions and augment conflict of interest provisions and post-employment restrictions.

  BCLC reinforces a culture of accountability and efficiency at all levels, and strengthens cost management as per the Government Letter of Expectations. We employ zero-based budgeting and continuous improvement in business planning processes, such as quarterly review and approval of business cases, with emphasis on benefits realization.

Performance Measure: Employee Engagement

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual[5]	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Employee Engagement	81%	82%	n/a	82%	78%	80%	82%

Data Source and Data Reliability: Annual anonymous online survey of BCLC employees conducted by an independent third-party professional. The margin of error is ± 1.72 at the 95% confidence level (19 times out of 20).
Benchmark Data: Employee Engagement is internally benchmarked on a time series basis.

Discussion:

- Employee Engagement is defined as the intellectual and emotional commitment employees have in an organization. Engaged employees help drive our success to deliver great value for money for our players and to sustain and grow net income for the Province. This performance metric measures the percentage of BCLC employees that are engaged.
- In 2014/15, BCLC's employee engagement level was very high, but below target. Cost management activities, including organizational restructuring, and uncertainty due to Government's Internal Audit and Advisory Services Review, may have contributed to lower results.
- Our goal is to increase our employee engagement level in coming years by listening to feedback from annual surveys and acting upon results to help attract and retain the right talent.

Performance Measure: Employee Turnover Rate

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Employee Turnover Rate	15.0%	10.6%	12.4%	14.0%	24.7%	14.0%	12.0%

Data Source and Data Reliability: BCLC internal sources. Data is measured on a monthly basis with the year-end calculated by averaging monthly rates.
Benchmark Data: Employee Turnover Rate is internally benchmarked on a time series basis.

Discussion:

- Employee Turnover Rate helps determine our success in attracting and retaining a workforce that drives the continuous transformation of our business in an ever-changing marketplace. It measures our competitiveness in the labour market as well as the effectiveness of our training, development and retention programs.
- In 2014/15 we did not meet our target. Cost management activities, including organizational restructuring, and uncertainty due to Government's Internal Audit and Advisory Services Review, may have contributed to these results.
- Our goal is to lower employee turnover rates in upcoming years by providing effective human resources programs that help attract and retain the right talent, skills and abilities to meet business needs.

5 In 2013/14, BCLC did not conduct the Employee Engagement survey; hence no results are available.

Goal 3: Public – Our business and the benefits it creates are understood and supported by British Columbians.

From innovative responsible gambling programs, research and conferences, to community outreach and participation, BCLC is earning public support and in turn, the Province provides social, economic and environmental benefits for British Columbians.

We strive to engage in respectful and effective communications that inform or consult stakeholders on BCLC's actions, decisions and initiatives. BCLC has established standards of ethical conduct for all employees, which respects public trust and taxpayer money. We manage our responsibilities with integrity, transparency and use the Taxpayer Accountability Principles to serve the best interests of citizens and generate net income for the Province.

Strategies:

- **Our contributions to economic growth and communities are recognized by the public as a good thing.**
  Our licence to operate stems from public trust and support. Building on this is critical for long-term success. BCLC will continue to strike the right balance between delivering a healthy bottom line and encouraging healthy gambling choices.

- **The gambling entertainment choices we offer are delivered with integrity and transparency.**
  BCLC delivers more than $1 billion each year to the Province of British Columbia, which uses it for health care, education, community initiatives and other programs. Sustaining this net income relies on enhancing public understanding and support. BCLC does this through good corporate citizenship, demonstrating integrity in our products and facilities, and managing and conducting business with transparency.

Performance Measure: Public Recognition of Positive Contributions

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Public Recognition of Positive Contributions	54%	60%	61%	60%	68%	64%	65%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ± 1.55 at the 95% confidence level (19 times out of 20).
Benchmark Data: Public Recognition of Positive Contributions is internally benchmarked on a time series basis.

Discussion:

- Public Recognition of Positive Contributions helps us gauge success in building public understanding and recognition of the positive contributions we make to the Province of B.C.
- In 2014/15, we exceeded our target, yet opportunities exist to further strengthen recognition.
- In the coming years, we will continue to communicate BCLC's positive contributions to economic growth and communities across B.C., so that our business is better understood and welcomed by British Columbians.

Performance Measure: Public Perception of BCLC's Transparency

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Public Perception of BCLC's Transparency	45%	51%	52%	50%	57%	52%	55%

Data Source and Data Reliability: Continuous online survey independently conducted by a third-party with a random sample of B.C. adults aged 19 and up. The survey uses industry-standard techniques to randomize the sample, while retaining a gender, age and regional balance consistent with B.C. population as per Statistics Canada's Census. The margin of error is ±1.55 at the 95% confidence level (19 times out of 20).
Benchmark Data: Public Perception of BCLC's Transparency is internally benchmarked on a time series basis.

Discussion:

- Public Perception of BCLC's Transparency measures our success in being open with the public so that our business and its benefits are understood and recognized by British Columbians.
- In 2014/15, we exceeded our target and while this is positive, opportunities exist to strengthen our reputation.
- Our goal is to enhance public perceptions of BCLC's delivery of gambling entertainment with integrity and transparency. We plan to be open about our business plans and the impact of those plans, so that BCLC is better understood and welcomed by British Columbians.

Performance Measure: Level of Greenhouse Gas Emissions

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Level of Greenhouse Gas Emissions (CO_2e metric tonnes by calendar year)	2011:1,506	2012:1,403	2013:1,374	2014:1,382	2014:1,315	2015:1,142	2016:1,119

Data Source and Data Reliability: Data is obtained via suppliers of electricity, natural gas, fleet vehicle and paper from internal procurement reporting. BCLC uses calculations provided by the Province to convert and report our GHG emissions in a standard format. Data for electricity and natural gas consumption is verifiable from utility company billings. Offsite facility data is calculated from meter readings. Fleet consumption is verified from our vehicle management company reporting. Paper consumption of all reportable types is measured internally each month.
Benchmark Data: Level of Greenhouse Gas Emissions is internally benchmarked on a time series basis.

Discussion:

- Sustainability is a key component of our social responsibility mandate. This measure gauges our success in reducing the level of reportable greenhouse gas (GHG) emissions over time.
- Since 2010, BCLC has strived to meet carbon neutrality requirements set out in Government's *Greenhouse Gas Reductions Act* and acted to minimize GHG.
- In 2014, our reportable GHG emissions decreased by 59 tonnes compared to 2013. This four per cent decrease is primarily due to two factors. First, the B.C. Climate Action Secretariat reduced the GHG conversion factor for electricity that all public sector organizations use in their emissions calculations. Second, we dramatically reduced our fleet size in Q4 2014 from 94 vehicles to eight.
- Over the coming years, we will continue to minimize our level of reportable GHG emissions by:
  - Advancing environmentally-sustainable behaviours in our organizational culture; and
  - Continuing programs across our business, from reducing energy consumption and travel, to improved waste management and sustainable procurement practices, and supporting service providers in lowering their energy use.
- Although we are currently on track to meet our target of reducing emissions by 33 per cent by 2020, future reductions are likely to become more challenging and costly. We will continue to pursue emissions reductions to meet the Government of B.C.'s expectations.

Goal 4: Profit – We will grow net income through investing to sustain the long-term health of our business.

We maximize net income through innovation and investments for sustainable success. From new games and high-tech ways to play, to prominent retailers and destination venues, BCLC consistently ranks as a top revenue contributor for the good of everyone, across B.C.

Looking back on the past 12 months, our renewed focus on growth succeeded. We secured major sales and distribution retailers, and delivered on market demand for facilities, amenities and higher limits. Our Lottery Central System that supports our lottery business creates efficiency and agility, while cost controls continue to maximize benefits to B.C.

BCLC aims to strengthen cost management capabilities and foster our culture of cost-consciousness. The organization is committed to continual improvement of operational efficiencies and effectiveness to contain costs and align with the Taxpayer Accountability Principles.

Strategies:

Define and integrate the innovative experiences our players want, delivered by our strategic partners.

BCLC monitors consumer trends and listens to what our players want, so that we can deliver relevant products and experiences that meet expectations and provide value for money. With player understanding as our basis, and best-in-class vendors to work with, we will invest in innovative products and services for engaging gambling experiences and grow net income for the Province.

Get to market faster with innovations so our games and services are more relevant.
We consistently improve processes, technology and skills to streamline IT, finance and procurement activities that support business operations. We work quickly to deliver cost-effective services and bring our product and innovations to market faster, which is key to providing engaging entertainment, growing our player base, and sustaining net income for the Province.

Performance Measure: Net Income

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Net Income (millions)	$1,107.4	$1,125.2	$1,174.6	$1,193.0	$1,254.5	$1,216.0	$1,242.8

Data Source and Data Reliability: Net Income is from BCLC Audited Financial Statements and is calculated in accordance with International Financial Reporting Standards (IFRS).
Benchmark Data: Net Income is benchmarked on a time series basis.

Discussion:

- Net Income is the total amount generated by BCLC gambling and delivered to the Province, which uses it to benefit British Columbians via funding for public health care, education, and charitable and community programs.
- In 2014/15, BCLC exceeded its target and achieved a result of $1,254.5 million in net income. The growth in net income represents a 6.8 per cent increase over 2013/14. This growth is due primarily to higher than budgeted revenue in our high-limit tables category, and lower than budgeted costs. This is due to ongoing cost management, lower staff costs resulting from a higher vacancy rate than budgeted, and a one-time amortization adjustment.
- In 2015/16, we aim to deliver our committed net income for the Province and the benefit of British Columbians. We anticipate higher gaming support, operational and amortization costs due to a growing technology asset base, stabilizing staffing levels and marketing initiatives to sustain revenue.

Performance Measure: Comprehensive Costs Ratio (% of Net Win)

Performance Measure	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Comprehensive Costs Ratio (% of Net Win)	42.0%	41.3%	43.4%	41.9%	41.9%	43.3%	43.3%

Data Source and Data Reliability: Comprehensive Costs Ratio is from BCLC Audited Financial Statements.
Benchmark Data: Comprehensive Costs Ratio is benchmarked on a time series basis.

Discussion:

- The Comprehensive Costs Ratio is the sum of direct, gaming support, operating, amortization and other costs (excluding taxes), divided by net win and expressed as a percentage. It is intended to gauge operational efficiency.
- In 2014/15, BCLC's comprehensive costs ratio of 41.9 per cent met our target, with a direct cost increase of one per cent offset by lower gaming support and operating expenses.
- In future years, this ratio will reflect higher direct costs due to a shift towards popular table games that are more labour intensive to deliver. Also, operating, gaming support and amortization in coming years are expected to rise due to normalizing the employee vacancy rate and investing in marketing and technology.

Financial Report

Management Discussion and Analysis

Financial Results	2010/11[1]	2011/12	2012/13[1]	2013/14	2014/15				2015/16	2016/17	2017/18
($ in millions)	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR	TARGET	TARGET	TARGET
REVENUES											
Lottery & eGaming	$ 1,062.4	$ 1,061.4	$ 1,093.8	$ 1,123.5	$ 1,103.4	$ 1,123.1	$ (19.7)	$ (20.1)	$ 1,109.7	$ 1,116.5	$ 1,117.7
Casino & Community Gaming	1,616.3	1,640.0	1,638.1	1,684.8	1,800.9	1,675.3	125.6	116.1	1,780.1	1,821.6	1,856.2
	2,678.7	**2,701.4**	**2,731.9**	**2,808.3**	**2,904.3**	**2,798.4**	**105.9**	**96.0**	**2,889.8**	**2,938.1**	**2,973.9**
Prizes	652.3	641.9	649.6	665.6	659.5	654.5	(5.0)	6.1	650.3	650.7	648.2
NET WIN	**2,026.4**	**2,059.5**	**2,082.3**	**2,142.7**	**2,244.8**	**2,143.9**	**100.9**	**102.1**	**2,239.5**	**2,287.4**	**2,325.7**
EXPENDITURES[2]											
Lottery & eGaming	170.2	175.6	177.6	189.9	175.4	181.3	5.9	14.5	196.9	196.4	196.0
Casino & Community Gaming	668.9	689.6	682.7	740.1	765.2	716.6	(48.6)	(25.1)	773.6	793.2	812.6
	839.1	**865.2**	**860.3**	**930.0**	**940.6**	**897.9**	**(42.7)**	**(10.6)**	**970.5**	**989.6**	**1,008.6**
Income before the undernoted	1,187.3	1,194.3	1,222.0	1,212.7	1,304.2	1,246.0	58.2	91.5	1,269.0	1,297.8	1,317.1
Indirect tax expense	81.6	86.9	96.8	38.1	49.7	53.0	3.3	(11.6)	53.0	55.0	57.0
NET INCOME											
Lottery & eGaming	269.4	278.9	297.4	304.1	304.2	311.7	(7.5)	0.1	292.2	296.4	298.0
Casino & Community Gaming	816.3	828.5	827.8	870.5	950.3	881.3	69.0	79.8	923.8	946.4	962.1
	$ 1,105.7	$ 1,107.4	$ 1,125.2	$ 1,174.6	$ 1,254.5	$ 1,193.0	$ 61.5	$ 79.9	$ 1,216.0	$ 1,242.8	$ 1,260.1
Profit Margin	**41.3%**	**41.0%**	**41.2%**	**41.8%**	**43.2%**	**42.6%**	**0.6%**	**1.4%**	**42.1%**	**42.3%**	**42.4%**
Debt	**$85.0**	**$90.1**	**$131.7**	**$154.9**	**$140.1**	**$154.9**	**(14.8)**	**(14.8)**	**$154.9**	**$179.9**	**$206.4**
Capital Expenditures	**$81.3**	**$74.4**	**$96.6**	**$100.3**	**$69.5**	**$90.0**	**(20.5)**	**(30.8)**	**$90.0**	**$110.0**	**$110.0**

Footnotes:

1. Comparative results have been restated to comply with International Financial Reporting Standards (IFRS).
2. Please refer to page 28 for a detailed breakdown of 2014/15 actual expenditures.

In 2014/15, BCLC achieved our highest ever net income: $1.25 billion on $2.90 billion revenue, exceeding last year's record by $79.9 million.

The increase reflects notable growth in high-limit table game play.

Every year, BCLC prepares a three-year Service Plan against which results are measured. As part of this process, and in response to specific direction from Government, in 2013/14 BCLC committed to a focused cost-containment initiative. It began with organizational restructuring to enhance efficiency and effectiveness in the years to come; however, this restructuring significantly impacted staff turnover and BCLC experienced a higher than expected vacancy rate throughout 2014/15. Employee vacancies reduced capacity to execute planned business initiatives, which contributed to a favourable variance in operating costs of $10.9 million less than budget. Combined, these factors resulted in lower operating expenses in 2014/15, totaling $42.4 million less than 2013/14. However, overall expenditures have increased from the prior year and are above budget due to the rise in direct costs associated with the favourable revenue performance.

Performance Measurement:

BCLC's performance measurement framework is updated annually as part of the business planning process. It guides decision-making at all levels of the organization and has been used to assess 2014/15 operational performance against targets and budgets established in the Service Plan (http://corporate.bclc.com/content/dam/bclc/corporate/documents/corporate-reports/service-plan-2014-15-2016-17.pdf). BCLC also compares performance to other gambling entities that publicly share results. These organizations were selected from across Canada and internationally, based on relevance of operations comparative to BCLC.

International Financial Reporting Standards (IFRS):

The *Budget Transparency and Accountability Act* specifies that Government and Government organizations conform to set standards and guidelines that comprise generally-accepted accounting principles in Canada, unless otherwise directed by the Treasury Board. Accounting standards are understood to mean those established by the Public Sector Accounting Board, which directs Government Business Enterprises to adhere to IFRS, including BCLC.

Economic Outlook:

Current indicators suggest that B.C.'s economy will continue to experience modest growth throughout 2015 and 2016; however, this may not translate directly into increased revenue or net income for BCLC. The segment of our business that contributed most to our net income this year – high-limit table games – is heavily dependent on an international player base and the tourism industry. Consequently, the recent slowdown of some national economies and currency restrictions present risks for our business.

Over the next three years, our priorities remain as net income growth from our core businesses, as well as expanding and diversifying our player base. In addition to product and service innovations, we are progressing on a multi-year initiative to modernize technological infrastructure, enhance relationships with our private sector service providers and third-party vendors, and explore strategic cost management opportunities.

BCLC has factored product performance, market trends, demographics and general economic conditions into the targets of our 2015/16 – 2017/18 Service Plan (http://corporate.bclc.com/content/dam/bclc/corporate/documents/service-plan-complete-document-2015-16.pdf).

Lottery and eGaming Operations:

FINANCIAL RESULTS ($ IN MILLIONS)	2010/11	2011/12	2012/13	2013/14	2014/15			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Lottery	$ 1,019.5	$ 995.8	$ 1,020.5	$ 1,032.5	$ 994.3	$ 1,026.0	$ (31.7)	$ (38.2)
eGaming	42.9	65.6	73.3	91.0	109.1	97.1	12.0	18.1
	1,062.4	1,061.4	1,093.8	1,123.5	1,103.4	1,123.1	(19.7)	(20.1)
Prizes	581.5	580.8	594.2	615.7	610.5	615.1	4.6	5.2
Net win	480.9	480.6	499.6	507.8	492.9	508.0	(15.1)	(14.9)
Direct expenses	77.2	77.4	81.2	84.7	85.3	87.0	1.7	(0.6)
Gaming support costs & operating expenses	93.0	98.2	96.4	105.2	90.1	94.3	4.2	15.1
Income before the undernoted	310.7	305.0	322.0	317.9	317.5	326.7	(9.2)	(0.4)
Indirect tax expense	21.3	26.1	24.6	13.8	13.3	15.0	1.7	0.5
Net income	$ 289.4	$ 278.9	$ 297.4	$ 304.1	$ 304.2	$ 311.7	$ (7.5)	$ 0.1
Lottery retailers	3,994	3,853	3,805	3,748	3,928			
Lottery terminals	3,962	3,866	3,765	3,707	3,691			

Lottery and eGaming net income of $304.2 million exceeded 2013/14 by $0.1 million, but fell short of budget by $7.5 million. Overall revenue of $1,103.4 million was down $20.1 million (1.8 per cent) from 2013/14 and $19.7 million from the target (1.8 per cent).

Profitability was up most notably in the Social category (which includes Poker Lotto, Keno, BC50/50, and Sports Action), driven by strong Keno performance. Overall, sales in the Social category were up $11.9 million over the previous year and exceeded budget by $13.1 million. Lotto sales however fell $48.1 million from the previous year and $57.5 million below budget, largely due to a lack of jackpot rollovers, resulting in smaller jackpots than previous years.

Throughout 2014/15, BCLC continued to invest in PlayNow.com, increasing the frequency of new casino-style game launches and product enhancements. Overall, eGaming revenues rose $18.1 million over 2013/14 – a 19.9 per cent increase.

Casino and Community Gaming Operations:

FINANCIAL RESULTS ($ IN MILLIONS)	2010/11	2011/12	2012/13	2013/14	2014/15			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Revenue								
Slot Machines	$ 1,126.6	$ 1,140.7	$ 1,140.1	$ 1,135.3	$ 1,149.4	$ 1,160.1	$ (10.7)	$ 14.1
Table Games	357.1	380.9	390.2	452.1	555.1	434.0	121.1	103.0
Poker	22.5	22.1	21.3	20.7	21.1	19.3	1.8	0.4
Bingo	110.1	96.3	86.5	76.7	75.3	61.9	13.4	(1.4)
	1,616.3	1,640.0	1,638.1	1,684.8	1,800.9	1,675.3	125.6	116.1
Prizes	70.8	61.1	55.4	49.9	49.0	39.4	(9.6)	0.9
Net win	1,545.5	1,578.9	1,582.7	1,634.9	1,751.9	1,635.9	116.0	117.0
Direct expenses	542.7	552.9	556.0	580.8	633.3	577.6	(55.7)	(52.5)
Gaming support costs & operating expenses	126.2	136.7	126.7	159.3	131.9	139.0	7.1	27.4
Income before the undernoted	876.6	889.3	900.0	894.8	986.7	919.3	67.4	91.9
Income tax expense	60.3	60.8	72.2	24.3	36.4	38.0	1.6	(12.1)
Net income	$ 816.3	$ 828.5	$ 827.8	$ 870.5	$ 950.3	$ 881.3	$ 69.0	$ 79.8
Casinos	17	17	17	17	17			
Slot machines	9,476	9,727	9,740	9,907	9,797			
Tables	436	459	472	476	505			
Commercial halls	11	10	7	7	7			
Community gaming centers	16	17	19	19	18			
Community gaming slot machines	1,850	2,103	2,484	2,803	2,508			

Casino and community gaming operations generated revenue of $1.80 billion in 2014/15, up $116.1 million from the previous year and $125.6 million over target. Slot machine revenue increased from the previous year by $14.1 million, however it was below budget by $10.7 million. Table games (including poker) continued to build on last year's success, surpassing budget by $122.9 million and $103.4 million over 2013/14.

Capital Spending:

FINANCIAL RESULTS ($ IN MILLIONS)	2010/11	2011/12	2012/13	2013/14	2014/15			
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	VARIANCE FROM BUDGET	VARIANCE FROM PRIOR YEAR
Lottery	$ 4.6	$ 7.6	$ 6.3	$ 7.8	$ 4.8	$ 10.2	$ 5.4	$ 3.0
eGaming	9.3	6.8	10.0	8.7	1.7	5.9	4.2	7.0
Casino & Community Gaming	38.5	46.8	63.5	67.2	47.2	54.7	7.5	20.0
Corporate	28.9	13.2	16.8	16.6	15.8	19.2	3.4	0.8
Capital Expenditures	$ 81.3	$ 74.4	$ 96.6	$ 100.3	$ 69.5	$ 90.0	$ 20.5	$ 30.8

From year to year, capital spending varies significantly in response to revenue generation and facility initiatives. In 2014/15, capital spending of $69.5 million was $20.5 million lower than budget and $30.8 million less than 2013/14. The decrease year-over-year reflects the completed installation of our gaming management system (GMS) and project delays due to reduced workforce capacity to execute business initiatives.

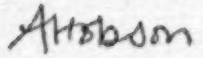
Budgeted at $104.4 million, the cost of our GMS to date stands at $93.2 million. While the GMS has now been installed in all gaming facilities, we are still working to fully refine the system. Once fully refined, projections are expected to be under budget by approximately $10.8 million.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

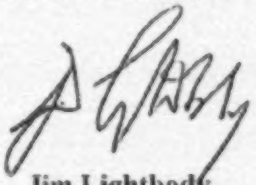
The consolidated financial statements of BCLC have been prepared by management in accordance with International Financial Reporting Standards. The consolidated financial statements present fairly the consolidated financial position of BCLC as at March 31, 2015, and the results of its consolidated financial performance and cash flows for the year then ended.

Management is responsible for the integrity of the consolidated financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of reliable financial information in a timely manner.

KPMG, LLP, Chartered Accountants have performed an independent audit of BCLC and expressed an unqualified opinion on the consolidated financial statements of BCLC.



Amanda Hobson
CFO & Vice-President
Finance and Corporate Services



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INDEPENDENT AUDITORS' REPORT

To the Directors of and Minister Responsible for British Columbia Lottery Corporation

We have audited the accompanying consolidated financial statements of British Columbia Lottery Corporation, which are comprised of the consolidated statement of financial position as at March 31, 2015, the consolidated statements of comprehensive income, changes in deficit and cash flows for the year then ended, and notes, which are comprised of a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Lottery Corporation as at March 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

Kamloops, Canada
May 14, 2015

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British Columbia Lottery Corporation
Consolidated Statement of Financial Position

March 31, 2015, with comparative information for 2014
(in thousands of Canadian dollars)

		2015		2014
ASSETS				
Cash and cash equivalents (note 6)	$	75,850	$	69,791
Accounts receivable (note 7)		39,915		38,159
Receivable from the Interprovincial Lottery Corporation		15,128		7,746
Prepaid expenses		5,152		6,869
Inventories (note 8)		9,043		7,241
Current assets		145,088		129,806
Employee future benefits (note 9)		2,645		17,836
Property and equipment (note 10)		180,988		176,147
Intangible assets (note 11)		83,720		85,689
Non-current assets		267,353		279,672
Total assets	$	412,441	$	409,478
LIABILITIES				
Cheques issued in excess of funds on hand (note 6)	$	1,239	$	1,695
Prizes payable (note 12)		28,751		31,032
Accounts payable, accrued liabilities and other (note 13)		80,596		86,106
Short-term financing (note 14)		140,080		154,926
Due to the Government of British Columbia (note 15)		143,686		100,506
Deferred revenue		11,105		8,362
Current liabilities		405,457		382,627
Employee future benefits (note 9)		81,994		65,404
Non-current liabilities		81,994		65,404
Total liabilities		487,451		448,031
DEFICIT				
Accumulated deficit		(17,144)		(17,144)
Accumulated other comprehensive loss		(57,866)		(21,409)
Total deficit		(75,010)		(38,553)
Total liabilities and deficit	$	412,441	$	409,478

Commitments and contingencies (notes 18 and 19)
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

Bud Smith
Chair, Board of Directors

Bob Holden
Chair, Audit Committee

British Columbia Lottery Corporation
Consolidated Statement of Comprehensive Income

Year ended March 31, 2015, with comparative information for 2014
(in thousands of Canadian dollars)

		2015		2014
Revenue	$	2,904,303	$	2,808,399
Prizes		659,508		665,619
		2,244,795		2,142,780
Commissions and fees		680,323		631,055
Systems, maintenance and ticket distribution		35,654		36,519
Gaming equipment, leases and licenses		26,282		21,958
Ticket printing		11,987		12,469
		754,246		702,001
Employee costs		82,099		118,075
Amortization and depreciation		65,367		61,733
Advertising, marketing and promotions		18,814		24,687
Professional fees and services		5,935		7,697
Cost of premises		7,393		6,756
Other		6,695		9,142
		186,303		228,090
Income before the undernoted		1,304,246		1,212,689
Indirect tax expense (note 21)		49,739		38,106
Net income		1,254,507		1,174,583
Other comprehensive income (loss)				
Item that will never be reclassified to net income				
Net defined benefit plan actuarial gains (losses) (note 9)		(36,457)		21,329
Total comprehensive income	$	1,218,050	$	1,195,912

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation
Consolidated Statement of Changes in Deficit

Year ended March 31, 2015, with comparative information for 2014
(in thousands of Canadian dollars)

	Accumulated Deficit	AOCL [1]	Total Deficit
Balance, April 1, 2013	$ (17,144)	$ (42,738)	$ (59,882)
Net income	1,174,583	–	1,174,583
Net defined benefit plan actuarial gains (note 9)	–	21,329	21,329
Total comprehensive income	1,174,583	21,329	1,195,912
Distributions to the Government of British Columbia (note 15)	(1,165,323)	–	(1,165,323)
Distributions to the Government of Canada (note 16)	(9,260)	–	(9,260)
Balance, March 31, 2014	$ (17,144)	$ (21,409)	$ (38,553)
Net income	**1,254,507**	–	**1,254,507**
Net defined benefit plan actuarial losses (note 9)	–	**(36,457)**	**(36,457)**
Total comprehensive income	**1,254,507**	**(36,457)**	**1,218,050**
Distributions to the Government of British Columbia (note 15)	**(1,245,175)**	–	**(1,245,175)**
Distributions to the Government of Canada (note 16)	**(9,332)**	–	**(9,332)**
Balance, March 31, 2015	$ (17,144)	$ (57,866)	$ (75,010)

[1] Accumulated Other Comprehensive Loss

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation
Consolidated Statement of Cash Flows

Year ended March 31, 2015, with comparative information for 2014
(in thousands of Canadian dollars)

		2015		2014
Cash flows from operating activities:				
Net income	$	1,254,507	$	1,174,583
Items not involving cash:				
Depreciation of property and equipment		45,048		45,506
Amortization of intangible assets		20,319		16,227
Gain on disposal of property and equipment		(252)		(84)
Loss on disposal of intangible assets		-		33
Net benefit plan expense		12,737		27,997
Write-down of inventory to net realizable value		1,832		5,330
		1,334,191		1,269,592
Changes in:				
Accounts receivable		(1,756)		3,774
Receivable from the Interprovincial Lottery Corporation		(7,382)		(592)
Prepaid expenses		1,717		(1,384)
Inventories		(3,634)		(2,573)
Employee future benefits		(17,413)		(13,868)
Prizes payable		(2,281)		(169)
Accounts payable, accrued liabilities and other		2,213		13,436
Deferred revenue		2,743		2,088
Net cash from operating activities		1,308,398		1,270,304
Cash flows from financing activities:				
Increase (decrease) in short-term financing		(14,771)		23,278
Interest paid		(933)		(1,153)
Distributions to the Government of British Columbia		(1,201,995)		(1,176,113)
Distributions to the Government of Canada		(9,332)		(9,260)
Net cash used in financing activities		(1,227,031)		(1,163,248)
Cash flows from investing activities:				
Additions to property and equipment		(47,945)		(80,373)
Additions to intangible assets		(28,404)		(15,385)
Proceeds on disposal of property and equipment		1,497		611
Net cash used in investing activities		(74,852)		(95,147)
Net increase in cash and cash equivalents		6,515		11,909
Cash and cash equivalents, beginning of year		68,096		56,187
Cash and cash equivalents, end of year (note 6)	$	74,611	$	68,096

See accompanying notes to consolidated financial statements.

1. Reporting entity:

British Columbia Lottery Corporation (BCLC or the Corporation) is a Crown corporation of British Columbia (B.C.). BCLC was incorporated under the *Company Act* (B.C.) on October 25, 1984, and is continued under the *Gaming Control Act* (B.C.). The address of BCLC's registered office is 74 West Seymour Street in Kamloops, B.C., Canada. As an agent of the Crown, the Government of British Columbia has designated BCLC as the authority to conduct, manage and operate lottery schemes on behalf of the Government of British Columbia, including lottery, casino, bingo and internet gaming (eGaming) activities. BCLC is also the regional marketing organization of B.C. for national lottery games which are collective undertakings by the provinces of Canada acting through the Interprovincial Lottery Corporation (ILC).

As BCLC is an agent of the Crown, it is not subject to federal or provincial corporate income taxes.

2. Basis of preparation:

A. STATEMENT OF COMPLIANCE:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by BCLC's Board of Directors (the Board) on May 14, 2015.

B. BASIS OF MEASUREMENT:

The consolidated financial statements of the Corporation have been prepared on a historical cost basis except for employee future benefit plan assets, which are recognized as the fair value of plan assets less the present value of the defined benefit obligation and are limited as explained in note 4(E)(iii).

C. FUNCTIONAL AND PRESENTATION CURRENCY:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information has been rounded to the nearest thousand dollars.

D. USE OF ESTIMATES AND JUDGMENTS:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. Basis of preparation (continued):

D. USE OF ESTIMATES AND JUDGMENTS (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following note:

- Consolidation: determination of control over an investee (note 4(A))

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year is included in the following note:

- Measurement of defined benefit obligations: key actuarial assumptions (note 9)

3. Changes in accounting policies:

Except for the changes below, the Corporation has consistently applied the accounting policies set out in note 4 to all periods presented in these consolidated financial statements.

The Corporation has adopted the following amendments to a standard with a date of initial application of April 1, 2014.

- Amendments to IAS 32 *Financial Instruments: Presentation* (IAS 32).

The nature and effects of the changes are explained below.

The amendments to IAS 32 clarify:

- the meaning of 'currently has a legally enforceable right of set-off;' and
- that some gross settlement systems may be considered equivalent to net settlement.

As a result of the amendments to IAS 32, the Corporation has reviewed its presentation of offsetting its financial assets and financial liabilities and there is no significant impact to the existing presentation as a result.

4. Significant accounting policies:

Except for the changes explained in note 3, the Corporation and its subsidiary have consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

A. BASIS OF CONSOLIDATION:

The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements include B.C. Lottotech International Inc., a wholly-owned Canadian subsidiary of BCLC. Intercompany transactions and balances are eliminated on consolidation.

B. CASH EQUIVALENTS:

Cash equivalents include Canadian money market funds (overnight deposits) with financial institutions having original maturity dates of three months or less from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Corporation in the management of its short-term commitments. Canadian money market funds are highly liquid and form an integral part of the Corporation's cash management.

C. FINANCIAL INSTRUMENTS:

The Corporation classifies its non-derivative financial instruments into the following categories: fair value through income, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets and financial liabilities measured at amortized cost. The classification depends on the purpose for which the financial instruments were acquired.

i. Non-derivative financial assets:

The Corporation initially recognizes loans and receivables on the dates that they originate.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or are settled.

The Corporation has the following non-derivative financial assets: loans and receivables.

4. Significant accounting policies (continued):

C. FINANCIAL INSTRUMENTS (continued):

i. Non-derivative financial assets (continued):

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in active markets. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for doubtful debts and impairment losses (see note 4(H)). Amortized cost is determined with reference to any discounts or premiums on acquisition over the period to maturity.

Loans and receivables are comprised of cash and cash equivalents, accounts receivable and the receivable from the Interprovincial Lottery Corporation.

ii. Non-derivative financial liabilities:

All financial liabilities are recognized initially on the trade dates, which are the dates that the Corporation becomes a party to the contractual provisions of the instruments.

The Corporation derecognizes a financial liability when its contractual obligations expire, are discharged or are cancelled.

The Corporation classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method with interest expense recognized in income in the period in which it is incurred. The Corporation's non-derivative financial liabilities are comprised of cheques issued in excess of funds on hand, prizes payable, accounts payable, accrued liabilities and other, short-term financing and due to the Government of British Columbia.

4. Significant accounting policies (continued):

C. FINANCIAL INSTRUMENTS (continued):

iii. Offsetting:

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

D. INVENTORIES:

Inventories are measured at the lower of cost, determined on a weighted average or first-in, first-out basis and net realizable value.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present locations. Inventories are written down to their net realizable values when the cost of the inventories is estimated not to be recoverable through use or sale.

E. EMPLOYEE FUTURE BENEFITS:

i. Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Termination benefits:

Termination benefits are recognized as an expense at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognizes costs for a restructuring. Benefits payable are discounted to their present value.

4. Significant accounting policies (continued):

E. EMPLOYEE FUTURE BENEFITS (continued):

iii. Defined benefit plans:

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of benefit payable in the future that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value and the fair value of any plan assets are deducted.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Corporation, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability (asset), which are comprised of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income (OCI). BCLC determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in income as employee costs.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in income. The Corporation recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

4. Significant accounting policies (continued):

F. PROPERTY AND EQUIPMENT:

The Corporation's property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Borrowing costs related to the construction of qualifying assets are capitalized. Capitalized direct labour is comprised of short-term employee benefits for employees working directly on the construction of the qualifying asset.

When major components of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Land and assets under construction are not depreciated. The cost of other assets is depreciated over their estimated useful lives on a straight-line basis, beginning when they are available for use. Depreciation is based on asset cost less estimated residual value and based on the following estimated useful lives:

Asset	Rate
Corporate facilities, systems and equipment	3 to 20 years
Lottery gaming systems and equipment	5 years
eGaming systems and equipment	3 to 5 years
Casino and community gaming systems and equipment	3 to 10 years

The residual values, depreciation methods and useful economic lives of property and equipment are reviewed annually and adjusted if appropriate.

G. INTANGIBLE ASSETS:

Expenditures incurred in the development or acquisition of computer software products or systems that will contribute to future economic benefits through revenue generation and/or cost reduction are capitalized as intangible assets. Other development costs are recognized in income as incurred.

Development expenditures are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset.

4. Significant accounting policies (continued):

G. INTANGIBLE ASSETS (continued):

The cost of computer software and systems that are acquired by the Corporation includes the purchase price and any expenditure directly attributable to preparing the asset for its intended use.

Capitalized direct labour is comprised of short-term employee benefits for employees working directly on development. Borrowing costs related to the development of qualifying assets are capitalized.

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets (three to 10 years). The residual values, amortization methods and useful economic lives of intangible assets are reviewed annually and adjusted if appropriate.

H. IMPAIRMENT:

i. Financial assets:

Financial assets not classified as at fair value through income are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through income.

ii. Non-financial assets:

The carrying amounts of non-financial assets, other than inventories and employee future benefit plan assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets under development are tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). An impairment loss is recognized for the amount by which the asset or cash generating unit's carrying amount exceeds its recoverable amount.

4. Significant accounting policies (continued):

H. IMPAIRMENT (continued):

ii. Non-financial assets (continued):

The recoverable amount is the greater of an asset or cash generating unit's fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. Impairment losses are recognized in income and are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

I. PROVISIONS:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized in income as financing cost in other expenses.

J. REVENUE:

Revenue is measured at the fair value of the consideration received or receivable.

The Corporation's revenue recognition policies are as follows:

i. Revenue:

Revenue from lottery tickets is recognized at the date of the draw. Receipts for lottery tickets sold before March 31 for draws held subsequent to that date are recorded as deferred revenue.

Revenue, net of buybacks, for all instant ticket games is recognized at the time of the transfer of legal ownership to the retailer.

Revenue from slot machines, table games and eCasino is recognized, net of prizes paid, in the same period the game is played. Revenue is net of the change in liabilities under customer loyalty programs.

4. Significant accounting policies (continued):

J. REVENUE (continued):

i. Revenue (continued):

Revenue from the operation of bingo games is recognized in the same period the game is played.

ii. Customer loyalty programs:

The Corporation has several customer loyalty incentive programs whereby patrons can receive free or discounted goods and services, and in some cases the right to receive cash. Some of the customer loyalty incentive programs allow customers to earn points based on the volume of play during gaming transactions. These points are recorded as a separate deliverable in the revenue transaction.

For programs that provide patrons the right to receive free or discounted goods or services (including free play), the revenue, as determined by the fair value of the undelivered goods and services, is deferred until the promotional consideration is provided.

For programs that provide the patron a right to receive cash, a financial liability is recognized initially at fair value, with the corresponding amount equal to the cash value, recorded as a reduction of revenue.

iii. Net win:

Net win represents gaming revenue net of prizes paid.

K. PRIZES:

Lottery and bingo prize expenses are recorded based on the actual prize liability experienced for each game.

Instant ticket games prize expenses are recorded at the theoretical prize liabilities for each game concurrently with the recognition of revenue. The actual expense incurred each year will vary from theoretical estimates based on the actual life cycle of the game. Over the life of a game, the actual prize expense will closely approximate the theoretical expense.

Unclaimed lottery prizes are recorded as prizes payable until the prizes are claimed, discontinued or expire. Expired prizes are recorded as reductions in prize expense and prize liability in the year of expiry.

4. Significant accounting policies (continued):

K. PRIZES (continued):

Unclaimed prizes of national lottery games are administered by the Interprovincial Lottery Corporation.

Progressive jackpots:

The Corporation has several progressive jackpot games, each of which may be comprised of a seed (or base) as well as an incremental portion which increases by allotting a portion of each player's wager to the pot. BCLC recognizes such amounts as a prize payable at the time the Corporation has an obligation with regard to the jackpot funds.

L. COMMISSIONS:

Commissions paid to lottery retailers are based on revenue earned by BCLC. BCLC records these commission expenses as revenue is earned.

Commissions paid to gaming facility service providers, including commissions for facility development, are based on net win generated in accordance with underlying operating service agreements. BCLC recognizes commission expenses as net win is earned. Commissions for facility development are based on a commission structure employed by BCLC that enables gaming facility service providers to earn additional commission up to contractually determined limits.

M. LEASES:

At inception of an arrangement, the Corporation determines whether the arrangement is or contains a lease. Leases in which the Corporation assumes substantially all the risks and rewards of ownership are classified as financing leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under financing leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases other than financing leases are classified as operating leases and are not recognized in the consolidated statement of financial position. Payments made under operating leases are recognized in income on a straight-line basis over the terms of the leases.

4. Significant accounting policies (continued):

N. NEW STANDARDS ISSUED BUT NOT YET ADOPTED:

A number of new standards and amendments to standards are not yet effective and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early.

i. IFRS 9 *Financial Instruments* (IFRS 9):

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. At the date of these consolidated financial statements, the impact of this new standard is unknown. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2019.

ii. IFRS 15 *Revenue from Contracts with Customers* (IFRS 15):

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue,* IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted. At the date of these consolidated financial statements, the impact of this new standard is unknown. The Corporation plans to adopt this standard for its fiscal year ending March 31, 2018.

The following new or amended standards are not expected to have a significant impact on the Corporation's consolidated financial statements.

- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38).*
- *Disclosure Initiative: Amendments to IAS 1.*

5. Financial risk management:

The Corporation has exposure to the following financial risks from its use of financial instruments: credit risk, liquidity risk and market risk.

This note presents information on how the Corporation manages those financial risks.

A. GENERAL:

BCLC's Board is responsible for the oversight of management including its policies related to financial and risk management issues and oversight of the overall risk profile.

The Board uses BCLC's Audit Committee to assist in the review of financial risks. The Audit Committee oversees and reports back to the Board on the review of the Corporation's information systems, risk management function and internal controls in order to obtain reasonable assurance that such systems are operating effectively to produce accurate, appropriate and timely management and financial information.

The Board uses BCLC's Risk Committee for monitoring the principal risks facing the Corporation. Strategic and business risks are also considered as part of the strategic and business planning processes. The Risk Committee oversees and reports back to the Board on the Corporation's risk management functions.

The Corporation has adopted a formal risk management strategy and process (in accordance with international risk management standards) to identify significant risks, to assess control systems and to adopt risk treatment plans when appropriate. Quarterly reports on risk management activities and the risk profile of the Corporation are produced for the Executive Committee and the Risk Committee.

The Corporation also has a division focused on corporate security and compliance. Further, the Corporation has internal audit services and a dedicated risk manager to ensure that a high priority is placed on all operational aspects of risk management, control and compliance.

5. Financial risk management (continued):

B. CREDIT RISK:

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its contractual obligations to the Corporation. Credit risk arises principally from the Corporation's trade receivables, net win less commissions outstanding, gaming cash floats and cash and cash equivalents.

Trade receivables, net win less commissions outstanding and gaming cash floats

The major third parties transacting with the Corporation, which include lottery retailers and gaming facility service providers, require registration with Gaming Policy and Enforcement Branch (GPEB) before doing business with BCLC.

The Corporation is not materially exposed to any one individual lottery retailer. The objectives of the Corporation's lottery retailer credit policies are to provide retailers with adequate time to sell lottery products before payment is requested, while not exposing the Corporation to unacceptable risks. Credit assessments may be completed for new retailers (with the exception of registered charities), retailers who have experienced insufficient fund occurrences or where there is a concern that a retailer might be experiencing financial difficulties.

Security is obtained from lottery retailers who are considered high financial risks or from lottery retailers where minimal credit information is available. Security may include Irrevocable Standby Letters of Credit, security deposits, or personal guarantees. The Corporation may secure net win less commissions that would be outstanding from gaming facility service providers through security deposits or Irrevocable Standby Letters of Credit. This security also covers gaming cash floats owned by the Corporation and provided by the Corporation to certain gaming facility service providers. While the Corporation is materially exposed to two different gaming facility service providers, their letters of credit and daily cash sweeps made by the Corporation mitigate the risk of material default for financial assets owned by the Corporation.

The Corporation's PlayNow.com sales are paid in advance through credit card, debit card, or online bill payment transactions.

As at March 31, 2015, the net win less commissions owing to the Corporation from the two largest gaming facility service providers accounts for $8,255 (2014: $8,685) of the accounts receivable carrying amount.

5. Financial risk management (continued):

B. CREDIT RISK (continued):

Trade receivables, net win less commissions outstanding and gaming cash floats (continued)

The maximum exposure to credit risk for trade receivables, net win less commissions outstanding and gaming cash floats at the reporting date by type of debtor is represented by the carrying amounts less any Irrevocable Standby Letters of Credit or security deposits. These amounts are listed as follows:

		2015		2014
Maximum exposure	$	82,303	$	79,443
Collateral		(64,698)		(60,948)
Net exposure	$	17,605	$	18,495

Normal credit terms for trade receivables or net win less commissions outstanding are within 30 days. As at March 31, 2015 and 2014, there were no trade receivables or net win less commissions outstanding more than 60 days.

Cash and cash equivalents

Cash and cash equivalents, excluding gaming cash floats, are held with banks and counterparties which have high credit ratings and minimal market risk. Cash equivalents are limited to short-term debt securities with minimal market risk. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Corporation has a formal policy and guidelines in place for cash equivalents that provide direction for the management of the Corporation's funds with respect to the allocation of responsibilities, investment objectives, asset allocation, allowable fund holdings and investment constraints, and performance standards.

A policy has been established that outlines various asset mix range percentages for low risk investments restricted to short-term pooled money market funds or bond investments.

The maximum exposure to credit risk for cash and cash equivalents, excluding gaming cash floats, is represented by the carrying amounts at the reporting date (note 6).

5. Financial risk management (continued):

B. CREDIT RISK (continued):

Concentrations

The Corporation has significant business arrangements with two gaming facility service providers which account for the majority of its casino and community gaming business. The Corporation also has arrangements with other gaming facility service providers and approximately 3,900 lottery retailers. Credit risk related to service providers or lottery retailers is mitigated through Irrevocable Standby Letters of Credit or security deposits, as well as by the distribution of risk across a large number of lottery retailers.

The Corporation has a number of business relationships with suppliers of goods and services. Among these are arrangements for ticket printing, as well as critical gaming hardware and software. In addition, the Corporation maintains a significant number of other relationships with suppliers of goods and services which are within the normal parameters of the Corporation's business and the gambling industry.

C. LIQUIDITY RISK:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due.

To manage cash flow requirements, the Corporation has a short-term financing agreement with the Government of British Columbia under its Fiscal Agency Loan (FAL) program. Under this agreement, the Corporation may borrow up to $250 million. In making a loan to the Corporation, the Government of British Columbia uses reasonable efforts to comply with the borrowing requirements of the Corporation by supplying funds at market rates; however, the interest rate on any loan will be determined at the sole discretion of the Government of British Columbia. Loans are unsecured and there are no pre-established repayment terms. The terms are set by the Government of British Columbia each time a loan is requested under this agreement. To date the durations of the loans have not exceeded 90 days.

The Corporation also has a $10 million unused demand operating credit facility with a Canadian commercial bank that is unsecured. Interest is payable at the bank's commercial prime lending rate (2014: prime rate).

5. Financial risk management (continued):

C. LIQUIDITY RISK (continued):

The Corporation's Finance division manages liquidity risk by forecasting and assessing actual cash flow requirements on an on-going basis, as well as by planning for short-term liquidity with investment maturities chosen to ensure that sufficient funds are available to meet the Corporation's financial obligations.

Invested funds represent temporary cash surplus balances resulting from unclaimed prize money and money from normal operations held in advance of its transfer to the Government of British Columbia (note 15). As a result of fluctuating cash flow requirements and to minimize financial risk, the Corporation maintains a high degree of liquidity.

The contractual maturities of all financial liabilities as at March 31, 2015 and 2014 are three months or less, except for $21,400 (2014 - $22,800) which matures greater than three months but less than twelve.

D. MARKET RISK:

Market risk is the risk that changes in market prices will affect the fair value of or future cash flows from a financial instrument. Market risk includes currency risk, interest rate risk and other market price risk. BCLC is exposed to interest rate risk which is described below.

Interest rate risk

The Corporation is exposed to interest rate risk through its short-term financing agreement with the Government of British Columbia. The terms are set by the Government of British Columbia each time a loan is requested under the FAL agreement. The terms are determined based on market conditions available at that time.

The Corporation mitigates this risk by borrowing the minimum amount necessary from the Government of British Columbia.

The Corporation's interest-bearing assets are typically invested for short periods due to liquidity considerations. As a result, exposure to interest rate risk is minimized for these assets.

5. Financial risk management (continued):

D. MARKET RISK (continued):

Interest rate risk (continued)

The Corporation's interest-bearing financial instruments at the reporting date are as follows:

		2015		2014
Canadian money market fund (overnight deposit) (fixed-rate instruments)	$	**23,686**	$	19,168
Short-term financing (fixed-rate instruments)		**(140,080)**		(154,926)
	$	**(116,394)**	$	(135,758)

Sensitivity analysis

The Corporation does not account for any fixed-rate financial instruments at fair value through income; therefore, a change in interest rates at the reporting date would not affect net income. A change of one per cent in interest rates at the reporting date would have increased (decreased) the deficit by $1,164 (2014: $1,358).

E. FAIR VALUES:

The carrying amounts of financial assets and financial liabilities not classified as fair value through income approximate their fair values at the reporting date. This is due to the relatively short periods to maturity of these items or because they are due on demand.

5. Financial risk management (continued):

F. OFFSETTING:

The carrying amounts of recognized financial instruments that are set off in the consolidated statement of financial position are as follows:

As at March 31, 2015	Gross financial assets set off	Gross financial liabilities set off	Net financial assets	Related financial assets not set off	Net amount
Accounts receivable					
- Lottery retailers	$ 30,878	$ (10,546)	$ 20,332	$ –	$ 20,332
- Gaming facility service providers	34,871	(18,115)	16,756	–	16,756
- Other	–	–	–	2,827	2,827
	$ 65,749	$ (28,661)	$ 37,088	$ 2,827	$ 39,915

As at March 31, 2015	Gross financial assets set off	Gross financial liabilities set off	Net financial liabilities	Related financial liabilities not set off	Net amount
Accounts payable, accrued liabilities and other	$ 672	$ (1,657)	$ (985)	$ (79,611)	$ (80,596)

As at March 31, 2014	Gross financial assets set off	Gross financial liabilities set off	Net financial assets	Related financial assets not set off	Net amount
Accounts receivable					
- Lottery retailers	$ 21,315	$ (1,060)	$ 20,255	$ –	$ 20,255
- Gaming facility service providers	31,958	(17,256)	14,702	–	14,702
- Other	2,246	(637)	1,609	1,593	3,202
	$ 55,519	$ (18,953)	$ 36,566	$ 1,593	$ 38,159

6. Cash and cash equivalents:

		2015		2014
Gaming cash floats	$	**42,388**	$	41,284
Funds held for security deposits		**5,503**		5,373
Funds held for player accounts		**4,273**		3,966
Canadian money market fund (overnight deposit)		**23,686**		19,168
Cash and cash equivalents in the statement of financial position		**75,850**		69,791
Cheques issued in excess of funds on hand in the statement of financial position		**(1,239)**		(1,695)
Cash and cash equivalents in the statement of cash flows	$	**74,611**	$	68,096

Gaming cash floats are owned by the Corporation and provided by the Corporation to its gaming facility service providers for gaming bankrolls (as specified under the operating service agreements). These floats are located at the gambling locations and are not available for other purposes.

Funds held for security deposits include security deposit amounts provided by lottery retailers and gaming facility service providers to the Corporation. These funds are deposited into a separate bank account. All security deposit amounts are internally restricted by the Corporation exclusively for funding the security deposit liability. A corresponding security deposit liability in the amount of $5,503 (2014: $5,373) is included in accounts payable, accrued liabilities and other.

Funds held for player accounts represent funds provided to the Corporation through player accounts on PlayNow.com. These amounts are deposited into a separate bank account and are internally restricted by the Corporation exclusively for funding the player accounts liability. A corresponding player account liability in the amount of $4,273 (2014: $3,966) is included in accounts payable, accrued liabilities and other.

Select casino service providers are responsible for holding and accounting for player funds held in Patron Gaming Accounts (gaming accounts). These gaming accounts are accounted for in accordance with the casino and community gaming centre standards, policies and procedures under the supervision of the Corporation, as well as in accordance with the regulations of GPEB. No amounts are recorded in the Corporation's financial statements for these gaming accounts. The casino service providers are legally liable for these gaming accounts that hold player funds.

7. Accounts receivable

		2015		2014
Trade receivables and net win less commissions outstanding:				
Lottery retailers	$	**20,332**	$	20,255
Gaming facility service providers		**16,756**		14,702
		37,088		34,957
Other		**2,827**		3,202
	$	**39,915**	$	38,159

8. Inventories:

The major components of inventories are as follows:

		2015		2014
Slot machine spare parts	$	**3,360**	$	1,794
Instant tickets		**4,442**		3,435
Other		**1,241**		2,012
	$	**9,043**	$	7,241

For the year ended March 31, 2015, inventories recognized as an expense amounted to $15,446 (2014: $21,005) which includes write-downs of inventories to net realizable value of $1,832 (2014: $5,330).

9. Employee future benefits:

		2015		2014
Net defined benefit asset (Plan A)	$	**(2,645)**	$	(17,836)
Net defined benefit liabilities (Plans B and C)		**81,994**		65,404
Net employee future benefits	**$**	**79,349**	$	47,568

The Corporation contributes to and controls the following post-employment defined benefit plans:

Registered Pension Plan (Plan A)

Plan A is a registered pension plan in the Province of B.C. under the *Pension Benefits Standards Act (British Columbia)* (PBSA). Plan A entitles an employee to receive an annual pension payment after retirement based on length of service and the average of the 60 consecutive months of highest pensionable earnings, and covers substantially all of the Corporation's employees. The pension benefits are partially indexed for inflation after retirement.

Supplementary Pension Plan (Plan B)

Plan B covers employees designated by the Corporation. The pension benefits under Plan B provide designated employees a top-up to Plan A benefits to the extent, if any, that they are limited by the *Income Tax Act* maximum pension rules.

Non-Pension Post-Employment Plan (Plan C)

Plan C covers substantially all of BCLC's employees for post-employment medical, dental and life insurance benefits.

The Pension Committee has been established by the Corporation to have primary responsibility for the administration and oversight of the plans, and to perform certain delegated responsibilities of the Corporation as plan sponsor in relation to the plans.

These plans expose the Corporation to foreign currency risk, interest rate risk, longevity risk, inflation risk and other market price risk.

9. Employee future benefits (continued):

A. FUNDING:

Plan A is funded by employee contributions, employer contributions and investment returns. The Corporation funds Plan A based on the advice of an actuary, in order to provide for the cost of the benefits accruing under the plan and for the proper amortization of any unfunded liability or solvency deficiency, both in accordance with the PBSA, after taking into account the assets of the plan, employee contributions and all other relevant factors. The actuarial assumptions used to determine funding requirements may differ from the assumptions herein.

If at any time the actuary certifies that the net assets available for benefits under Plan A exceed the actuarially-determined present value of the accrued pension benefit obligation, such surplus, or any portion thereof, may be used by the Corporation at its discretion to reduce its contribution obligations, subject to PBSA restrictions.

The Corporation expects to contribute $14,200 to Plan A in the year ending March 31, 2016.

Plans B and C are unfunded; as such, the Corporation pays all benefits thereunder as they fall due.

9. Employee future benefits (continued):

B. MOVEMENT IN NET DEFINED BENEFIT LIABILITY (ASSET):

A reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components is as follows:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2015	2014	**2015**	2014	**2015**	2014
Balance at April 1	$ **248,573**	$ 220,499	$ **(201,005)**	$ (165,731)	$ **47,568**	$ 54,768
Included in income						
Current service cost	**10,062**	12,292	–	–	**10,062**	12,292
Past service cost	–	13,426	–	–	–	13,426
Interest cost (income)	**11,899**	9,543	**(9,524)**	(7,484)	**2,375**	2,059
Administration cost	–	–	**300**	220	**300**	220
	21,961	35,261	**(9,224)**	(7,264)	**12,737**	27,997
Included in OCI						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from:						
- demographic assumptions	**4,924**	19,540	–	–	**4,924**	19,540
- financial assumptions	**44,753**	(20,618)	–	–	**44,753**	(20,618)
- experience adjustments	**6,243**	(642)	–	–	**6,243**	(642)
Return on plan assets excluding interest income	–	–	**(19,463)**	(19,609)	**(19,463)**	(19,609)
	55,920	(1,720)	**(19,463)**	(19,609)	**36,457**	(21,329)
Other						
Contributions paid by the employer	–	–	**(17,413)**	(13,868)	**(17,413)**	(13,868)
Contributions paid by the employee	**2,600**	2,696	**(2,600)**	(2,696)	–	–
Benefits paid	**(9,748)**	(8,163)	**9,748**	8,163	–	–
	(7,148)	(5,467)	**(10,265)**	(8,401)	**(17,413)**	(13,868)
Balance at March 31	$ **319,306**	$ 248,573	$ **(239,957)**	$ (201,005)	$ **79,349**	$ 47,568

Represented by:	**2015**	2014
Net defined benefit asset (Plan A)	$ **(2,645)**	$ (17,836)
Net defined benefit liabilities (Plans B and C)	**81,994**	65,404
	$ **79,349**	$ 47,568

9. Employee future benefits (continued):

C. PLAN ASSETS:

Plan assets are comprised of:

2015	Level 1[1]	Level 2[2]	Total	Asset Mix
Equity securities				
Canadian equity	$ 71,047	$ –	$ 71,047	29%
Global equity	82,853	–	82,853	34%
Investment funds				
Fixed income	11,050	–	11,050	5%
Debt securities				
Canada bonds	51,837	–	51,837	22%
Canada real return bonds	–	23,170	23,170	10%
	$ 216,787	$ 23,170	$ 239,957	100%

2014	Level 1[1]	Level 2[2]	Total	Asset Mix
Equity securities				
Canadian equity	$ 64,537	$ –	$ 64,537	32%
Global equity	71,272	–	71,272	35%
Investment funds				
Fixed income	8,966	–	8,966	5%
Debt securities				
Canada bonds	35,032	–	35,032	17%
Canada real return bonds	–	20,503	20,503	10%
Cash and cash equivalents	695	–	695	1%
	$ 180,502	$ 20,503	$ 201,005	100%

[1] The fair value of Level 1 assets is determined based on quoted prices in active markets.

[2] The fair values of Government of Canada real return bonds are determined based on price quotations. However, as the underlying market in which these instruments are traded is not considered active, the bonds are classified as Level 2 in the fair value hierarchy.

Plan contributions are invested in equities and bonds. With consideration to the long-term nature of the plan liabilities, and the shorter-term liquidity needs for payments to retirees, the Corporation has a general target allocation of 60 per cent equities and 40 per cent bonds. As a general policy, and in accordance with the relevant regulations, the Corporation has adopted the investment guidelines of the PBSA for defining permissible investment activities for money held in trust. Each investment manager is expected to actively manage Plan A's assets within the parameters of the strategic asset mix comprising 40 to 70 per cent equity securities, 30 to 50 per cent investment funds and debt securities and 0 to 10 per cent cash and cash equivalents.

9. Employee future benefits (continued):

D. DEFINED BENEFIT OBLIGATION:

i. Actuarial valuation and assumptions:

An actuarial valuation is required, at a minimum, every three years to assess the financial position of Plan A. The most recent actuarial valuation of Plan A for funding purposes was made by Mercer (Canada) Limited, an independent firm of consulting actuaries, as of December 31, 2013. The next required actuarial valuation will be made as of December 31, 2016. There is no statutory actuarial valuation requirement for Plan B and C; however, an actuarial valuation is completed every three years on Plan C. An actuarial valuation of Plan C was performed as of January 31, 2013.

The principal actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

	Plans A and B		Plan C	
	2015	2014	**2015**	2014
Discount rate:				
Defined benefit obligation	**3.75%**	4.65%	**3.75%**	4.65%
Benefit cost	**4.65%**	4.40%	**4.65%**	4.40%
Rate of compensation increase for the fiscal year	**0.00%**	2.06%	-	-
Future compensation increases	**2.00%**	2.25%	-	-
Inflation	**2.00%**	2.25%	-	-
Initial weighted-average health care trend rate	-	-	**5.82%**	5.93%
Ultimate weighted-average health care trend rate	-	-	**4.50%**	4.50%
Year ultimate reached	-	-	**2029**	2029
Assumed life expectations on retirement at age 65				
Current pensioners				
Male	**23.0**	22.9	**23.0**	22.9
Female	**24.9**	24.8	**24.9**	24.8
Retiring in 20 years				
Male	**24.0**	24.0	**24.0**	24.0
Female	**25.9**	25.8	**25.9**	25.8

9. Employee future benefits (continued):

D. DEFINED BENEFIT OBLIGATION (continued):

ii. Sensitivity analysis:

Changes at March 31, 2015 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts as follows:

	Effect on the defined benefit obligation			
	2015		2014	
	Increase in rate	**Decrease in rate**	Increase in rate	Decrease in rate
Discount rate (1% movement)	**$ (51,606)**	**$ 67,620**	$ (40,573)	$ 52,908
Future compensation increase (1% movement)	**8,092**	**(6,253)**	4,450	(3,759)
Inflation (1% movement)	**16,633**	**(15,103)**	12,485	(11,401)
Health care cost trend rate (1% movement)	**11,319**	**(9,050)**	12,428	(9,537)
Future mortality (10% movement)	**(5,968)**	**6,595**	(4,392)	4,774

In practice, it is unlikely that one assumption would change, with all other assumptions remaining constant, since changes in some of the assumptions may be interdependent; however, this analysis does provide an approximation of the sensitivity of the assumptions shown.

iii. Maturity profile of plan membership:

The breakdown of the defined benefit obligation at March 31, 2015 (as a percentage of the total) in respect of active employees, former employees who have not yet started receiving a pension (deferred vested), and former employees and other beneficiaries receiving a pension (retirees), is as follows:

	Defined benefit obligation	
	2015	2014
Active members	**49%**	65%
Deferred vested members	**5%**	3%
Retirees	**46%**	32%
Total	**100%**	100%

At March 31, 2015, the weighted-average duration of the defined benefit obligation was 19.2 years (2014: 19.3 years).

10. Property and equipment:

	Land	Corporate facilities, systems and equipment	Lottery gaming systems and equipment	eGaming systems and equipment	Casino and community gaming systems and equipment	Assets under construction	Total
Cost							
Balance at April 1, 2013	$ 700	$ 80,465	$ 104,333	$ 6,548	$ 335,229	$ 5,642	$ 532,917
Additions	–	5,519	2,072	877	61,608	10,912	80,988
Transferred to systems and equipment	–	128	2,158	–	2,470	(4,756)	–
Disposals and retirements	–	(2,216)	(2,375)	(4)	(16,214)	–	(20,809)
Balance at March 31, 2014	700	83,896	106,188	7,421	383,093	11,798	593,096
Additions	**355**	**4,213**	**1,687**	**228**	**36,167**	**8,484**	**51,134**
Transferred to systems and equipment	**–**	**1,252**	**2,379**	**18**	**5,271**	**(8,920)**	**–**
Disposals and retirements	**–**	**(1,036)**	**(4,488)**	**(16)**	**(19,849)**	**–**	**(25,389)**
Balance at March 31, 2015	**$ 1,055**	**$ 88,325**	**$ 105,766**	**$ 7,651**	**$ 404,682**	**$ 11,362**	**$ 618,841**
Depreciation							
Balance at April 1, 2013	$ –	$ 56,850	$ 93,034	$ 4,568	$ 237,273	$ –	$ 391,725
Depreciation for the year	–	9,120	6,084	975	29,327	–	45,506
Disposals and retirements	–	(2,077)	(2,317)	(4)	(15,884)	–	(20,282)
Balance at March 31, 2014	–	63,893	96,801	5,539	250,716	–	416,949
Depreciation for the year	**–**	**7,091**	**3,544**	**947**	**33,466**	**–**	**45,048**
Disposals and retirements	**–**	**(1,012)**	**(4,474)**	**(16)**	**(18,642)**	**–**	**(24,144)**
Balance at March 31, 2015	**$ –**	**$ 69,972**	**$ 95,871**	**$ 6,470**	**$ 265,540**	**$ –**	**$ 437,853**
Carrying amounts							
At March 31, 2014	$ 700	$ 20,003	$ 9,387	$ 1,882	$ 132,377	$ 11,798	$ 176,147
At March 31, 2015	**$ 1,055**	**$ 18,353**	**$ 9,895**	**$ 1,181**	**$ 139,142**	**$ 11,362**	**$ 180,988**

Change in estimate

The Corporation reviews the estimated lives of its long-lived assets and related depreciation periods on an annual basis. During the year ended March 31, 2015, this review indicated the estimated depreciation periods of the Corporation's corporate information systems (included in corporate facilities, systems and equipment) were deemed to be longer than the previously assigned depreciation periods. As a result, effective April 1, 2014, the Corporation changed its estimate of the expected useful lives of these assets. The effect of this change in estimate is a decrease of $5,182 in depreciation expense for the year ended March 31, 2015.

11. Intangible assets:

The intangible assets balance represents purchased and internally-generated software assets.

	Software	Assets under development	Total
Cost			
Balance at April 1, 2013	$ 89,022	$ 49,741	$ 138,763
Acquisitions - separately acquired	11,018	403	11,421
Acquisitions - internally generated	2,952	4,729	7,681
Borrowing costs capitalized	–	195	195
Transferred to software	28,997	(28,997)	–
Disposals and retirements	(73)	–	(73)
Balance at March 31, 2014	131,916	26,071	157,987
Acquisitions – separately acquired	**8,803**	**6,468**	**15,271**
Acquisitions – internally generated	**1,940**	**763**	**2,703**
Borrowing costs capitalized	**–**	**376**	**376**
Transferred to software	**16,692**	**(16,692)**	**–**
Disposals and retirements	**(4,255)**	**–**	**(4,255)**
Balance at March 31, 2015	**$ 155,096**	**$ 16,986**	**$ 172,082**
Amortization			
Balance at April 1, 2013	$ 56,111	$ –	$ 56,111
Amortization for the year	16,227	–	16,227
Disposals and retirements	(40)	–	(40)
Balance at March 31, 2014	72,298	–	72,298
Amortization for the year	**20,319**	**–**	**20,319**
Disposals and retirements	**(4,255)**	**–**	**(4,255)**
Balance at March 31, 2015	**$ 88,362**	**$ –**	**$ 88,362**
Carrying amounts			
At March 31, 2014	$ 59,618	$ 26,071	$ 85,689
At March 31, 2015	**$ 66,734**	**$ 16,986**	**$ 83,720**

12. Prizes payable:

		2015		2014
Lottery	$	**24,050**	$	24,904
Casino and community gaming		**4,701**		6,128
	$	**28,751**	$	31,032

13. Accounts payable, accrued liabilities and other:

		2015		2014
Trade payables	$	**18,192**	$	14,424
Accrued expenses		**47,443**		57,119
Indirect tax payable		**4,074**		4,470
Other		**10,887**		10,093
	$	**80,596**	$	86,106

14. Short-term financing:

		2015		2014
Government of British Columbia, loans, payable in single instalments including interest ranging from $4 to $25 at rates ranging from 0.50% to 0.63%, unsecured, due between April 7, 2015 and April 16, 2015	$	**140,080**	$	–
Government of British Columbia, loans, payable in single instalments including interest ranging from $12 to $85 at rates ranging from 0.86% to 0.93%, unsecured, due between April 8, 2014 and May 2, 2014		–		154,926
	$	**140,080**	$	154,926

15. Distributions to the Government of British Columbia:

In accordance with the *Gaming Control Act* (B.C.), net income in each fiscal year, after deducting contractual amounts due to the Government of Canada (note 16), is paid into the consolidated revenue fund of the Government of British Columbia in the manner directed by the Lieutenant Governor in Council. The Corporation's transfer to the Government of British Columbia occurs four weeks after each fiscal month-end. The Corporation does not retain any earnings.

16. Distributions to the Government of Canada:

The ILC makes inflation-adjusted payments to the Government of Canada as a result of an agreement between the federal and provincial governments following the withdrawal of the Government of Canada from the lottery field. The Corporation remits British Columbia's share of the above payments to the ILC.

17. Interprovincial Lottery Corporation:

The Corporation's share of the ILC prize and ticket printing costs for national games is recognized in prize expense and ticket printing expense, respectively, in accordance with the recognition of revenue. The Corporation's share of the ILC's interest income less operating expenses is included in other expenses in the consolidated statement of comprehensive income.

18. Commitments:

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases for premises and vehicles are as follows:

2016	$4,529
2017	4,264
2018	3,831
2019	3,504
2020	3,116
Thereafter	18,807

The Corporation leases its Vancouver office and warehouse space under operating leases. The leases commenced May, 2011 and have a term of 15 years. The lease payments are increased every five years by a predetermined amount as set out in the contract terms.

18. Commitments (continued):

Operating leases (continued)

The Corporation leases a number of lottery retail locations under non-cancellable operating leases. These leases typically run for a period of five years. Many of these lease agreements include a base amount and an additional contingent rent amount based on sales volume of the retail location. In turn, the Corporation has entered into cancellable operating agreements with lottery retailers to operate these locations. These agreements have standard terms and are indeterminate in length. As part of the agreement to operate a location, the retailers pay contingent location fees that are reviewed, negotiated and adjusted as necessary.

The Corporation leases a fleet of vehicles under operating lease agreements. These leases generally have five year terms.

During the year ended March 31, 2015, $20,043 (2014: $19,075) was recognized as an expense in the consolidated statement of comprehensive income in respect of operating leases. The Corporation recognized income of $2,643 (2014: $2,727) in respect of rent under cancellable operating agreements with lottery retailers.

Capital commitments

As of March 31, 2015, the Corporation is committed to incur capital expenditures relating to property and equipment and intangible assets of $22,016. These commitments are expected to be settled in the following year.

19. Contingencies:

The Corporation has been named as a defendant in several lawsuits as well as other disputes in the ordinary course of business. A provision is recognized only when it is probable that there will be an outflow of economic benefits and the amount can be estimated reliably.

19. Contingencies (continued):

The Corporation periodically enters into agreements with suppliers that include limited indemnification obligations. BCLC is required to have all indemnification obligations approved by the B.C. Government Risk Management Branch. These indemnifications are customary in the industry and typically require the Corporation to compensate the other party for certain damages and costs incurred as a result of third-party claims. The nature of these agreements prevents the Corporation from making reasonable estimates of the maximum potential amount it could be required to pay its suppliers. Historically, the Corporation has not made any significant indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements for these indemnifications.

20. Related party transactions:

BCLC is a wholly-owned Crown corporation of the Government of British Columbia.

All transactions with the Government of British Columbia ministries, agencies and Crown corporations occurred in the normal course of operations and are at arm's length, which is representative of fair value.

Key management personnel have been defined as the members of the Board of Directors, the President & CEO, and the Corporation's Vice-Presidents. The compensation for key management personnel is shown below:

		2015		2014
Short-term employee benefits	$	**2,209**	$	2,982
Pension and post-employment benefits		**186**		403
Termination benefits		**194**		–
Other		**(48)**		48
	$	**2,541**	$	3,433

The Corporation contributes to defined benefit plans. Transactions with these plans are disclosed in note 9. Other related party transactions have been disclosed in note 15.

21. Indirect tax expense:

As a provincial gaming authority, BCLC is a prescribed registrant under the *Games of Chance Goods and Services Tax (GST)/Harmonized Sales Tax (HST) Regulations* of the *Excise Tax Act* (the Regulations). The Corporation makes GST remittances to the Government of Canada pursuant to the Regulations. The Corporation's net tax for a reporting period is comprised of net tax attributable to both gaming and non-gaming activities. Imputed tax on gaming expenses is calculated according to a formula set out in the Regulations resulting in the direct payment of additional GST at the applicable statutory rate. The net tax attributable to non-gaming activities is calculated similar to other GST registrants.

Provincial Sales Tax is calculated and remitted to the Province of British Columbia pursuant to the *Provincial Sales Tax Act*.

Appendix A: Subsidiaries and Operating Segments

B.C. Lottotech International, Inc.

	2014/15	2013/14
Revenue ($ thousands)		
Lease revenue	$ 58,184	$ 55,870
Expenses		
Amortization	58,039	55,730
Other Income	(404)	(405)
	57,635	55,325
Net income	$ 549	$ 545

The consolidated statements of BCLC include B.C. Lottotech International Inc. ("Lottotech"), a wholly-owned subsidiary with a primary purpose to purchase capital assets which are leased back to BCLC. The major expense is amortization on these acquisitions. Management and oversight of Lottotech is consolidated within BCLC operations and the Board reviews and approves capital budgets through the annual business planning process.

Appendix B: Additional Information

For more information about BCLC's:

Vision, mission, values	http://corporate.bclc.com/who-we-are/our-mission-and-values.html
Organizational Overview	http://corporate.bclc.com/who-we-are.html http://corporate.bclc.com/what-we-do.html http://corporate.bclc.com/social-responsibility.html
Corporate Governance	http://corporate.bclc.com/who-we-are/governance-and-oversight/board-of-directors.html

BCLC's actions to fulfill government direction

The Government Letter of Expectations is an annual letter of direction to BCLC that reinforces our mandate, identifies strategic priorities, and sets forth performance measures. The letter outlines the responsibilities and expectations of both parties to support our collaborative working relationship.

Government Direction	BCLC Actions
Operate the gaming business within the social policy framework established by Government and in alignment with the corporation's social responsibility objectives, building public trust and support in a manner consistent with the Province's Responsible Gambling Strategy. Continue to support the joint responsibility between the corporation and the regulatory agency, the Gaming Policy and Enforcement Branch (GPEB), for delivery of the Strategy, specifically in the areas of research, education and awareness.	BCLC is committed to social responsibility and operating an efficient and effective responsible gambling program. BCLC manages 22 staffed GameSense Info Centres across the province, which provide information and services to about 4,500 players monthly. In 2013/14, BCLC received re-certification at Level 4 of the World Lottery Association Responsible Gambling framework. This is the highest level that an organization can achieve. To maintain this rating, BCLC continues to focus on research, player education and creating awareness of responsible gambling. Programs such as the third annual New Horizons in Responsible Gambling conference, which took place in February 2015, and the Responsible Gambling Awareness Week program, which took place in five communities across the province, demonstrate BCLC's social responsibility commitment. BCLC will continue to offer both of these initiatives. We work to continuously improve our responsible gambling programs. For example, the Voluntary-Self Exclusion Program is currently in the midst of a

	four-year longitudinal study being conducted by the University of the Fraser Valley to evaluate the effectiveness of the program from the perspective of participants. BCLC is also committed to social responsibility in how we operate our business. We are working to reduce reportable greenhouse gas emissions from the 2007 baseline by 33 per cent by 2020 as directed by Government.
Operate within the Province's legislative and regulatory framework, and comply with policies, directives and standards that may be issued from time to time by the Minister of Finance or the Gaming Policy and Enforcement Branch.	BCLC is committed to operating our business within the legislative and regulatory framework established by the Province of British Columbia. We continue to comply with all policy directives and standards issued by the Minister and by GPEB. BCLC and GPEB are currently developing key principles to inform the roles and responsibilities of each organization, as outlined in the 2015/16 Mandate Letter.
Support GPEB in the development of Government's response and action plan addressing as appropriate, the recommendations made in the Provincial Health Officer's Report, entitled Lowering the Stakes: A Public Health Approach to Gambling in British Columbia.	BCLC collaborated with GPEB, the Ministry of Finance, the Ministry of Health and Ministry of Education to help inform the development of the Province's Plan for Public Health and Gambling, which was released in February 2015. Fourteen of the 22 action items in the Plan involve BCLC, and we are committed to acting on all items. Three items are complete. Others are partially complete, and of those, some require other resources to progress further and others are longer-term research projects.
Ensure that the B.C. Centre for Gambling Research at the University of British Columbia is funded $1 million in FY 13/14, and $250,000 for each of the following four years. This funding is in addition to its other operational obligations.	The UBC Centre for Gambling Research opened on November 12, 2014. In its first year, the Centre has already been granted $1 million, with $250,000 allocated for each of the following four years.
Continue to enhance the corporation's anti-money laundering compliance programs, including the continued implementation of measures to move the industry away from a cash basis, and other strategies in the Province's Anti-Money Laundering Strategy. Specifically, the corporation will:	BCLC is working to enhance existing anti-money laundering (AML) programs to ensure compliance with new Federal AML regulations, released in February 2014. Enhancements to the program include: o Investing in new analytical tools that help BCLC better understand our players' behaviour, and

○ Develop, obtain approval, and deliver alternatives that allow patrons access to funds inside gaming facilities, ○ Actively promote the cash alternative options to patrons, through a targeted marketing program, ○ Lead the industry Anti-Money Laundering (AML) working group, which consists of BCLC, GPEB and service providers, ○ Establish capacity, within the BCLC Corporate Security & Compliance Division, to better inform the AML initiative through analysis of cash usage and trends, ○ Develop and deliver enhanced customer due diligence (CDD) as required by new Federal AML Regulations, which take effect February 2014.	also help identify the players who should be scrutinized more closely or banned; ○ An AML Operational Analysis Unit is fully operational. The unit applies an analytical lens to cash usage, trends and business rules as they apply to compliance and player risk analysis. This group works closely with internal stakeholders and GPEB to implement new cash alternatives in facilities and to oversee AML activities across BCLC; and ○ BCLC has entered into information-sharing agreements with local police units to ensure high-risk individuals are proactively banned from BCLC facilities. To date, 92 individuals have been banned as a result of information obtained through these agreements. In addition, BCLC is focused on continued promotion and enhancement of cash alternative options in our facilities, with ongoing marketing efforts to move patrons into cash free options in place. A working group is being created comprised of BCLC, GPEB and other stakeholders such as police, the Financial Transaction and Reporting Analysis Centre of Canada (FINTRAC), government officials, gaming service providers, and private sector financial institutions. The intent is to develop a collaborative and coordinated approach for addressing money laundering in casinos, which will include options for reducing cash.
Optimize the corporation's financial performance, within the gaming framework established by Government, by responding to customer and marketplace demands for the distribution of products and services and seeking new revenue opportunities that are consistent with the Province's legal and policy frameworks.	BCLC management undertook a detailed review to identify operating cost savings in early 2014 by: ○ Prioritizing projects to align with BCLC business objectives; ○ Reducing overall advertising and marketing budgets; ○ Revisiting travel and general expense budgets; ○ Renegotiating contracts; and ○ Consolidating teams and eliminating roles where possible. BCLC continues to explore new revenue opportunities that are consistent with the Province's legal and policy frameworks.

Continue to optimize the performance, security, integrity and efficiency of the corporation through the corporation's business optimization program, the modernization of infrastructure, process and technology, and the continued implementation of the new casino gaming management system. Specifically, the corporation will present the Province with a detailed plan for each of the foregoing, including details of the assumptions and estimates used to determine the fiscal impacts. This detailed plan must be approved by the Province, for the purpose of improving the efficiency/effectiveness of the gaming experience and cost of administration in British Columbia.	As a part of BCLC's cost management review conducted in early 2014, projects were prioritized to ensure alignment with long-term BCLC goals to optimize the performance, security, integrity and efficiency of the corporation. Of these priority projects, the final rollout of the casino gaming management system (GMS) was completed on February 13, 2015. Implementation of other new features of GMS, including the Elite Bonus Suite, continues. BCLC has worked with the Province on developing detailed plans for the areas of the business that are to be optimized, and have committed to several deliverables related to Casino Optimization, as outlined in the 2015/16 Mandate Letter.